

Article 43 – Appendices

Appendix 3 – In Depth Interviews – Summary of Findings



NATIONAL ANALYSTS

RESEARCH & CONSULTING

Memorandum

December 17, 2001

To: Article 43 Project Team

From: Beth Rothschild/Tim Sprik

Subject: **Final Results on Article 43 In-Depth Qualitative Interviews**

The purpose of this memorandum is to summarize the results of the in-depth qualitative interviews completed as part of the initial phase of the Joint Article 43 Study. The in-depth interviews were intended to give us a picture of postal wholesalers'/consolidators' and corporate mail decision-makers' awareness, knowledge, and attitudes towards Article 43 -- now and in the future.

Our sampling plan for this phase of the work called for completing between 14 to 16, 45 to 60 minute interviews with a variety of individuals as shown in the chart below. Overall, a total of 12 interviews were completed because the interviews ranged from 90 to 120 minutes each, rather than 45 to 60 minutes as originally planned.

| Respondent Type | Interviews Planned | Interviews Completed |
|--|---------------------------|-----------------------------|
| Postal wholesalers/consolidators (including foreign posts) | 4 – 6 | 6 |
| Corporate mail decision-makers | 8 – 12 | 5 |
| Trade organization experts | 1 – 2 | 1 |
| Total | 14 – 16 | 12 |

Three of the four postal wholesalers/consolidators interviewed engage in international mailings, while one is exclusively a domestic mail consolidator. The five corporate mail decision-makers include two National Accounts and three non-National Accounts. All of them outsource a portion of their bulk mailing production and preparation operations. For all, the outsourcing decision rests on whether they have the capability and capacity to do the job in-house. In addition to cost, quality, security, and turnaround time are the most salient criteria upon which vendor decisions are made. The mailers interviewed who have small international volumes tend to rely on international consolidators to send their mail abroad. However, one of the National Account mailers whose international volume is very high has a variety of arrangements for producing and distributing international mail.

This memorandum presents a synopsis of the key research issues, and is organized into the following six sections: 1) awareness of & familiarity with Article 43 & its prohibitions; 2) perceptions of the extent of current remail practices; 3) attitudes towards Article 43 today; 4) potential response to elimination of Article 43; 5) mitigating factors in shifting domestic mail volume; and 6) attitudes towards elimination of Article 43.

- ***Awareness of & Familiarity with Article 43 & Its Prohibitions***

Awareness of Article 43 is prevalent among postal wholesalers, consolidators, and corporate decision-makers who currently engage in international mailings. They exhibit a degree of familiarity with the regulations governing remail and some knowledge of the appropriate do's and don'ts. In contrast, the one domestic consolidator had only a vague notion of Article 43, and it was only after discussion of the rules that he acknowledged having previously heard about the restrictions. Across the board, the number of the article is not known. Most simply refer to the article as remail. In terms of the specific prohibitions, the Bulk Mail option is generally well known, while the System Harmonization and Revision Mechanisms are not. Only the most sophisticated mailers were familiar with the terms System Harmonization, Revision Mechanism, and Bulk Mail Option, and even fewer knew of them by name.

What is and is not permissible is a matter of debate. Everyone knows that ABA is illegal. Some contend that ABC is illegal, while others believe it is not. Much discussion here centers on the use of a "legal" return address. A sizable contingent believes that the current Dutch Post, Singapore, DHL arrangement legitimizes ABC remail activities. Moreover, the presence of foreign post exchange offices on U.S. soil (ETOs) tends to do the same thing.

- ***Perceptions of the Extent of Current Remail Practices***

There is a consensus that ABA remail is negligible, accounting for a very small portion of current Standard A or First-Class Mail volumes. ABA is perceived as not very widespread because the U.S. Postal Service has made it clear that such a practice is illegal, and, if caught, the consequences of engaging in such behavior will be substantial. The participants agreed that any ABA remail, if performed, was undertaken by primarily small, disreputable consolidators and wholesalers who are looking to make "a few quick bucks." In addition, virtually none of the respondents knew of instances in which mailers disguised domestic mail as foreign mail and entered it as such, without its physically leaving the country.

In contrast, postal wholesalers, consolidators and corporate decision-makers believe there is substantially more ABC remail, where A is the United States and C is another industrialized country. Surprisingly, there is a perception that ABC remail occurs every bit as often through an industrialized country as through a developing country. Strategic alliances and industrialized country foreign post presence in many countries around the world contribute to this growing perception of somewhat "abundant" ABC remail. In fact, according to those interviewed, the Swiss, British, and Deutsche posts have provided

or made ABC remail possible. Lastly, they believe that ABC remail is more difficult for the United States to control, because prohibitions against it must be enforced by destination countries' posts, which frequently lack the ability to monitor the activity and/or inclination to deter it.

According to some, there are well known mailing industry intermediaries who operate networks that route mail through whatever country negotiates the best rates. Postal administrations in developing countries work with these private intermediaries to increase their revenues. However, postal administration representatives who were interviewed suggest that developing countries' remail activities have declined since 1995, because the practice proved less advantageous than originally expected. After new terminal dues structures were introduced in 1995, many posts found that the tariffs paid by mailers in the originating countries were too low to justify the risk of "offending" the industrialized posts, particularly the United States.

- ***Attitudes Towards Article 43 Today: Perceived Effectiveness & Enforceability of Existing Remail Prohibitions***

Article 43 in and of itself acts as an effective remail deterrent. Its being on the books and the U.S. Postal Service's tough stance on ABA dissuade both wholesalers/consolidators and corporate decision-makers from seriously engaging in this practice today. Of the UPU provisions related to remail, however, it should be noted that mailers and consolidators contend that the only provision that has a deterring effect today and would in the future is the ***Bulk Mail option***. Neither the System Harmonization nor the Revision Mechanism is perceived as having a dampening effect, in part because the thresholds are set so high, according to some, that few developing countries would reach them.

The Bulk Mail option enables the Postal Service to identify "offending" mailers quickly and to address the issue on a mailing-by-mailing basis. The other two correction mechanisms require too much work -- setting up a measurement system, regularly monitoring shipments, and keeping detailed records. In addition, they require a willingness on the part of a post to enforce the prohibitions. Several savvy respondents say that by the time the problem is identified, a mailer may have moved on to a different country, thereby, making it extremely difficult to effectively enforce the provisions. Furthermore, consolidators believe that developing posts are not in a position to effectively monitor their flows to levy the appropriate fines, nor that the U.S. Postal Service would risk jeopardizing their relations with key developing countries.

- ***Potential Response to Elimination of Article 43***

For the most part, mailers and consolidators agree that ***Standard A mail*** and ***periodicals*** are likely to transition first, if Article 43 were eliminated. Mail sent by these classes tends to be less time sensitive and is often printed in advance. Moreover, it appears as though mailers are somewhat more willing to relinquish control of preparation of these mailings and delivery. In contrast, some consolidators believe that a portion of the First-

Class Mail stream is vulnerable as well, especially advertising and solicitation pieces. There is a consensus that First-Class transactional mail (e.g., bills, statements, invoices, etc.) would be slower to transition because such pieces are very sensitive to delayed deliveries and a heightened potential for loss or damage.

Overall, if Article 43 were eliminated, there would be significant interest among all parties in ABA remail. Mail industry intermediaries would enthusiastically embrace the opportunity. They claim they would get into the business if they could offer clients a 20% to 30% cost savings. Domestic mailers are somewhat more wary of the ABA concept, because of potentially bad public relations and because it has no track record of quality, service, or reliability. They would need assurances that ABA mailings would not negatively affect their business; the delivery and security of their mail would not be compromised; and that the service providers were capable of providing the required services. If these concerns were assuaged, ABA remail is a distinct possibility, even with marginal savings -- perhaps as little as one cent per piece or 10% to 15% of total production/delivery costs. The trade association expert pointed out that mailers tend to argue over a tenth of a cent increase in Standard A, so a possible net savings of 5% would be seen as very attractive.

As noted above, mailers say they will seriously consider remail if their costs were reduced and their fears about delivery time were addressed. To that end, they would undertake some test mailings, and under the assumption that all goes well, would shift a larger portion of their bulk mail volume thereafter. Similarly, the domestic consolidator would find partners in various countries with whom to work in order to preserve his domestic volume and the international consolidators would “get into the domestic mail business.” They, too, would be looking to partner either with posts or private enterprises to offer high quality printing and transportation options to their customers. Decisions regarding production overseas would be made by mailers in the context of net savings and the “trustworthiness” of and familiarity with possible vendors. There is still some concern that the quality of overseas production would not be as good as it is here in the United States and that the costs to manage such production could overwhelm any potential cost savings here.

- ***Mitigating Factors in Shifting Domestic Mail Volume***

Generally, the ***indicia/return address*** is not a major mitigating factor because many believe that no one really looks at the indicia on Standard A mail. Furthermore, for periodicals, most believe that such publications are expected and, therefore, the indicia are not examined. A generic indicia would be ideal, but even a foreign indicia would become acceptable over time, even for First-Class transactional mail. The only instance in which the indicia might be important is for charitable organizations and non-profits whose constituencies might not look favorably upon use of foreign posts. In these instances, confidence in the mailer might be eroded.

The ***country*** is only a factor insofar as transit time and preparation quality are concerned. A minor issue, that could be overcome, is the political stability of the "B" country. Here, too, there is a belief that suitable arrangements could be made with neighboring Central American or Caribbean countries. Places in Europe or the Far East are considered too far away for initial "offshore" manufacturing, so to speak.

The primary sticking point for some mailers, particularly universities and non-profits is the ***address correction*** differences. Although several match against NCOA and engage in list hygiene practices, others tend to rely on address corrections to update their mailing lists. Without such corrections, some mailers say they will be loath to transition to a foreign alternative.

Surprisingly, no one generally believes that the ***points of entry*** are an issue, since they perceive that the U.S. Postal Service would have to do something if the capacity at selected locations were exceeded. Furthermore, bottlenecks would not be tolerated by either mailers or the U.S. Postal Service.

As a general rule, mailers say that ***delivery time*** can be accommodated by factoring in a little extra lead-time to account for a few more days in-stream. What is more important, however, is ***delivery predictability***. As long as mailers can count on a specific amount of time and it remains constant from one mailing to the next a slightly longer delivery time (e.g., not to exceed 5 to 7 days) can be easily accommodated for many types of mailings, particularly Standard A.

The issue of ***worksharing (e.g., barcoding, presorting, etc.)*** makes a difference in the amount of savings that remail options would present to mailers. Even factoring in domestic worksharing discounts, however, arbitrage potential for certain classes of mail is still substantial. If remail was allowed in the future, some say they would continue to barcode and presort if they could receive faster, more predictable deliveries. Those who produce complex pieces or who want more control over the production process would most probably continue to perform worksharing if they felt their delivery objectives would be better met. Those who engage in worksharing simply to save on postage would be most likely to abandon this extra effort, since part of the appeal of remail is total cost savings.

- *Attitudes Towards Elimination of Article 43*

Mailers and some consolidators are concerned about the potential elimination of Article 43. Without Postal Service reform (e.g., some form of privatization, etc.) elimination of Article 43 could precipitate the “demise” of the U.S. Postal Service as we know it today. The most vociferous mailers, consolidators, and trade association experts believe domestic mail volume would be seriously jeopardized, resulting in increased rates for that portion of the mail which remains domestic. Under this scenario the U.S. Postal Service, mailers, and the general public are the losers. The real winners would be the remail “agents” who would provide off-shore printing, preparation, or transportation services, and the posts in developing countries, although at some point several of these countries would have sufficient volumes to be considered industrialized. In this situation, their terminal dues payments would be increased. There is a belief that small domestic mail intermediaries who do not, and cannot, enter the remail business would be losers as well.

Some take a global macroeconomic viewpoint, and feel that Article 43 should be repealed. They assert that the prohibition against remail is hampering the centralization and globalization of mailing operations, which would make economic sense even in the absence of different terminal dues. They note that posts are becoming more competitively oriented, and that the U.S. Postal Service will have to do so as well. In addition, they believe that interest in remail will be self-limiting as rates from these foreign posts will eventually increase, making remail less desirable from an economic standpoint.

Not surprisingly, respondents had limited advice for the Postal Service if Article 43 were eliminated. One option would be for the U. S. Postal Service to negotiate postage rates with bulk mailers, so that domestic service would be priced more competitively with ABA remail. One official suggests replacing the existing terminal dues structure with bilateral agreements. Another alternative is to replace terminal dues with the equivalent of direct injection products, whereby foreign posts would pay the equivalent of domestic postage to have their pieces delivered. If given a choice, mailers and consolidators would like to see the rules for ABC remail relaxed. Although they recognize that the Postal Service might lose some revenue here, their belief is that such losses would be minimal.